

pay, and his "costs" substantially understate the costs long distance carriers actually incur. Id. pp. 74-75.<sup>29</sup>

SBC also relies on the fact that basic schedule rates for low-volume customers have been increased in recent years. But prices for those low-volume customers have declined in real terms in those years, see supra pages 46-47, and increases in basic rates have occurred for competitively benign reasons. Because regulation has kept rates below cost for low-volume customers, AT&T has raised those rates when permitted to do so, and its competitors have followed suit presumably to avoid attracting low-volume, high-cost customers themselves. Bernheim and Willig, Chapter 2, pp. 37-43. The measure of competition is not at the low-volume end of the market, where regulation has artificially depressed prices, but at the middle and high-volume end, where rates can reflect costs and carriers compete aggressively on price and quality to win customers. SBC never even attempts to explain why, if long-distance carriers can successfully collude, they have limited the so-called "lock-step" pricing pattern to the segment of the market that yields the least revenue -- or why, if these carriers can collude on price, they do not collude on non-price matters and instead choose to "waste" enormous sums on advertising and other marketing expenditures.

Nor does SBC adequately explain why it expects its "strength as a new entrant [to be] especially pronounced with relatively low-usage callers who are current [SBC] customers." SBC Br. 67. Although SBC maintains that its incremental costs of serving low-volume customers

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<sup>29</sup> See also B. Douglas Bernheim and Robert D. Willig, The Scope of Competition in Telecommunications (AEI 1997) (unpublished manuscript), Chapter 2, pp. 75-90 (hereinafter "Bernheim and Willig").

who are already local exchange customers will be low, it offers no plausible reason why it would choose to target the least profitable section of the long distance market.

Also unfounded is SBC's argument that SNET's entry into the long distance market illustrates the positive competitive impact of BOC entry into interexchange markets. To the contrary, SNET's long distance prices are no lower than the major IXCs' nationwide rates. SNET's interexchange rates vary from 23 cents during the day to 13 cents at night, and only provide small discounts for high volumes. In comparison, AT&T One Rate and Sprint Sense Day Plan offer a flat rate of 15 cents a minute to all customers, at all times, regardless of calling volume. Sprint also offers a flat rate of 10 cents a minute for domestic calls between 7 P.M. and 7 A.M., and 25 cents per minute for other domestic calls. MCI offers a flat rate of 12 cents at all times to customers who make over \$25.00 a month in calls. Plainly, these statistics reveal no obvious consumer benefits flowing from SNET's entry into the interexchange market.

SBC's claim that it will spur competition by underpricing existing long-distance carriers is thus implausible in the extreme, for prices are already at competitive levels and SBC can achieve no cost advantages except through discrimination, cross-subsidies, and price squeezes. Indeed, the BOCs' claims of future lower prices have consistently been contradicted by the prices they actually charge once entry is permitted.<sup>30</sup>

For example, SBC and other BOCs made extravagant claims in 1992 about the price savings consumers would enjoy if the BOCs were permitted to provide long distance service to

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<sup>30</sup> SBC's reliance (Br. 70-71) upon the WEFA Group's estimate of the impact of SBC's in-region interLATA entry on the Oklahoma economy is similarly specious. WEFA's conclusions are based upon assumptions -- such as that SBC's entry will reduce long distance service prices by 25% -- that are empirically unjustified and patently unreasonable. Hubbard/Lehr Aff. pp. 80-83.

cellular customers. They claimed that consumers would save an estimated \$400 million a year -  
- and based this upon a projection that BOCs would charge cellular customers about 10 cents a  
minute.<sup>31</sup> Reality has fallen far short of projections. SBC today provides such service under  
the Act -- and it offers a flat rate of \$ 0.20 per minute. SBC Br. 65.

It is far more likely that SBC's entry will comport with the expectations of SBC's merger  
partner, Pacific Telesis. Internal and proprietary documents of Pacific Telesis candidly  
acknowledge that "[l]ong distance is one of the most competitive businesses in America," and  
that Pacific Telesis' own costs in long distance would be significantly higher than AT&T's.<sup>32</sup>  
As a result, Pacific Telesis' own witness has admitted that Pacific Telesis does not appear  
"headed for the Price Club segment of the market" and will instead be at the "Nordstrom's end  
of the market."<sup>33</sup>

### CONCLUSION

For these reasons and those set forth in the accompanying affidavits, SBC's application  
should be denied.

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<sup>31</sup> United States v. Western Elec. Co., No. 82-0192 (DDC), Reply of the Bell  
Companies In Support of their Motion for Removal of Mobile and other Wireless Services  
From the Scope of the Interexchange Restriction, Affidavit of R.B. Higgins and J.C. Miller  
III, ¶¶ 20, 30 n.5 (Aug. 3, 1992).

<sup>27</sup> The documents remain confidential and proprietary to Pacific Telesis. These excerpts  
were made part of the public record in the state regulatory proceeding concerning certification  
of Pacific Telesis' affiliate as an interLATA carrier in California. See California Public Utilities  
Commission Proceeding, Application 96-03-007, Tr. Vol. 4, pp. 494, 496, 503-04.

<sup>28</sup> Id. Tr. Vol. 10, p. 1272.

Respectfully submitted,

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